Rural Community Investments
Draft Proposed Rule
Fact Sheet

Objective

- The FCA proposes a new rule, § 615.5176, that would enable Farm Credit System (FCS or System) institutions to more effectively serve the needs of rural communities by making rural community investments (RCIs) in accordance with the investment provisions of the Act.

Why

- This proposed rule is the result of the existing pilot programs and FCA regulations that already authorize FCS institutions to invest in rural communities under specified conditions.
- FCS is regionally positioned to understand rural needs and networks.
- The proposed rule is designed to enable institutions to complement and partner in rural projects requiring capital from multiple sources and not to overshadow the System's primary mission.
- We anticipate the proposed rule would help advance the quality of life in rural areas.

Authorized Investments	Would authorize FCS banks, associations, and service corporations to purchase investments in: 1. Debt securities for specific purposes, 2. Equity investments in venture capital funds and rural business investment companies (RBICs), and 3. Other investments that the FCA Board approves upon request and that are consistent with the System statutory mandate.
Rural Communities	Would allow investments in areas <u>outside</u> of an "urbanized area" as defined by the U. S. Census Bureau. The proposed rule would authorize RCIs in areas that the U.S. Census Bureau determined in the latest decennial census to have a population of less than 50,000. The proposed rule results in differences from the pilot programs that include: • A simplified and better defined area with the elimination of the Metropolitan Statistical Area determination, • A proposed geographic area that is slightly more expansive, and • An expanded eligible population of only 500,000 residents.
Qualified Investment Purposes for Debt Securities	RCIs provide funding for: 1. **Essential Community Facilities** – Hospitals, health care facilities, emergency facilities and equipment, and schools. 2. **Basic Transportation Infrastructure** – Roads, bridges, and other public transportation systems. 3. **Revitalization of Rural Communities after a Disaster** – Projects that help rebuild areas devastated by disasters where an emergency has been declared pursuant to law. 4. **Rural Development Projects:** a. **Guaranteed by the Federal Government –** Projects that the USDA Rural Development or other agencies with specific rural development programs provide a guarantee on a part of the financing. b. **Sponsored by Public Sector Entities** – Rural economic development projects identified, sponsored or guaranteed, by public sector entities, including a state, county, city, town or other municipal corporation, or public authority that is an instrument of a state or municipality. 5. **Rural Lenders** – Non-System financial institutions for rural development lending, such as investments in covered bonds or similar obligations issued by commercial banks directly, or through trusts secured by loans, originated by the commercial bank. The loans backing these securities are to rural businesses or for the purpose of rural development. Differences from the pilot programs include: • More restrictive purposes, • Minimal overlap with Title III lending authorities, and • Investments in Freddie Mac and Fannie Mae rural housing mortgage securities are excluded.

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Permitted Structures for Debt Securities	Broad category of investment securities commonly recognized in the capital markets as a medium for investment. • Investments are defined as any instrument or transaction that is more similar to a traditional investment instrument than to a commercial loan. • Securities include obligations of the U.S. government or its agencies, asset-backed securities, corporate debt securities, commercial paper, general obligations of state or political subdivision, mortgage-backed securities, revenue bonds, municipal bonds, or master notes.

Limits	**Portfolio Limit**
	• Limits investments to 150 percent of total surplus for each FCS institution.
	• As of December 31, 2007, the total surplus for FCS is $23.9 billion which could result in $35.8 billion in rural community investments.
	  o Associations held $14.8 billion in total surplus or potential RCIs totaling $22.2 billion.
	  o Banks held $9.1 billion in total surplus or potential RCIs totaling $13.6 billion.
	Obligor Limit
	• Limits investments in a single entity, issuer, or obligor to 15 percent of total surplus.
	• Obligor limit does not apply to U.S. guaranteed securities.
	• Ensures diversification of rural community investments.
	• Permits each FCS institution to make at least 10 qualifying RCIs assuming the maximum obligor limit in each investment (15% total surplus X 10 investments = 150% total surplus).
	
	Allows a $1 billion association with $150 million in total surplus to hold up to $225 million in RCIs, with no investment more than $22.5 million.

Permitted Equity Investments	Would authorize limited investments in RBICs and venture capital funds that promote economic development and create job opportunities in rural areas through equity capital investments in entrepreneurial operations. • Equity investments are subject to the total portfolio limit. • May not invest more than 5 percent of total surplus in venture capital investments and not more than 2 percent in any single fund. • Establishes controls to avoid conflicts of interest. • Permits investments in leveraged and non-leveraged RBICs.
Management Controls and Other Restrictions	Proposal requires prudent investment management and board and senior management involvement and oversight including: a. Written investment policy, b. Risk limits based on risk-bearing capacity, c. Reporting requirements, and d. Adequate investment valuation and controls. Other restrictions include: a. Maturity limits of 20 years or if the majority of the obligation is U.S. guaranteed then 40 years is permitted, b. Exclusion of RCIs from bank liquidity reserves, c. An association must obtain prior approval from its funding bank, and d. Investments held by service corporations must be attributed to the parent entity.